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AGENDA ITEM 4

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Approval of the Synthetic Enhanced Equity Strategy Policies
- II. PROGRAM:** Global Equity and Global Fixed Income
- III. RECOMMENDATION:** Recommend approval to the Investment Committee of the revised Internally Managed Global Enhanced Equity Strategies Policy and the Low Duration Fixed Income Program Policy

IV. ANALYSIS:

This item entails recommended revisions to the Statement of Investment Policy for Internally Managed Global Enhanced Equity Strategies Policy and the Low Duration Fixed Income Program. These two policies guide the Synthetic Enhanced equity strategy and are managed jointly by the Global Equity and Global Fixed Income investment teams.

Staff recommends three revisions to the Internally Managed Global Enhanced Equity Strategy Policy:

- Limit the size of the strategy to 5% of the Global Equity asset class at the time of purchase. If the exposure reaches 10%, it would trigger a plan to reduce the strategy back to the 5% limit
- Clarify the language regarding which equity index derivatives are used
- Provide reference to the overall plan leverage policy

The Low Duration Fixed Income Program is adding a new low liquidity, low duration fund called the Low Liquidity Enhanced Return Fund (LLER). The LLER complements the current higher liquidity High Quality LIBOR and Short Duration programs. The LLER Program is designed for participants that require low to no liquidity and will only be appropriate for holdings that are not expected to be liquidated.

Given the LLER hold-to-maturity mandate, and the illiquid nature of the underlying investments, Staff believes that performing policy compliance calculations at the time of security purchase is acceptable. Staff further believes that the use of this strategy should be limited to a small percentage (5% as stated above) of the asset class employing the strategy due to the increased credit risk and illiquidity of the underlying securities.

Attachment 1: Black-line version of the Internally Managed Global Enhanced Equity Strategy Policy from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate the deletions and double underline to indicate additions. Single underline does not indicate a change; rather it indicates that the term is defined in the glossary.

Attachment 2: Wilshire Consulting opinion letter for the Internally Managed Global Enhanced Equity Strategy Policy.

Attachment 3: Black-line version of the Low Duration Fixed Income Program Policy from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate the deletions and double underline to indicate additions. Single underline does not indicate a change; rather it indicates that the term is defined in the glossary.

Attachment 4: Wilshire Consulting opinion letter for the Low Duration Fixed Income Program Policy.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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